



End Use Checks Panel

Export Enforcement (BIS); Directorate
of Defense Trade Controls
(DDTC/State); and Defense Security
Cooperation Security Agency
(DSCA/Defense)



Export Controls

Serve the national security, foreign
policy, and nonproliferation interests
of the United States.



Intent of Export Controls

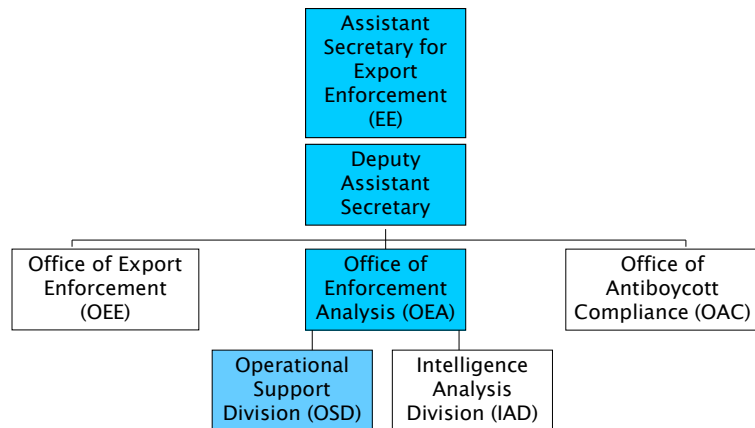
- Curtail the proliferation of weapons of mass destruction (nuclear, biological, & chemical) and their delivery systems.
- Limit the military and terrorism support of certain state and non-state actors.



Bureau of Industry and Security (BIS)

- Drafts, publishes and enforces the Export Administration Regulations (EAR)
- Items subject to BIS's regulatory jurisdiction have chiefly commercial uses, but also can be used in conventional arms or weapons of mass destruction applications, terrorist activities, or human rights abuses.

BIS Enforcement Structure



End-Use Checks (EUCs)

- Designed to ensure proper use of U.S. goods and technology.
 - Confirm bona fides of overseas consignees
 - Ensure items will be or have been used as authorized & license conditions are adhered to.



*Air Data Inertial Reference Unit
(Missile tech)*

Types of EUCs

- Pre-License Check (PLC)
 - Performed prior to export to confirm reliability and likelihood of proper end-use when little or no information is available on the foreign party.
- Post-Shipment Verification (PSV)
 - Performed after item is exported to confirm all parties have complied with an export license and its licensing condition; and to determine whether a non-licensed item has been illegally diverted or re-exported.

Who Performs EUCs?

- BIS Export Control Officers (ECOs)
- “Sentinel” Trips – ad hoc visits by OEE officials
- Other U.S. Embassy Officials



3-axis CNC router (national security, nuclear proliferation, missile technology)

ECO International Offices

- Beijing (2), Hong Kong, Abu Dhabi, Moscow, New Delhi, Singapore



How You Can Help

- Complete fully and accurately all shipping documentation and contact information.
- Provide, when requested:
 - Invoices, purchase orders, airway bill/bill of lading.
 - Copy of Electronic Export Information (formerly known as SED, also known as AES export filing).
 - Technical specifications.
- Ensure proper record retention.
- Ensure employee training and awareness.

BIS EUC Program

- **FY 2010**
 - Completed checks in over 45 countries
 - 708 EUCs (10% PLCs – 90% PSVs)
 - Approximately 21% unfavorable

- **FY 2011 (as of 2nd Quarter)**
 - Completed checks in 44 countries
 - 224 EUCs (15% PLCs – 85% PSVs)
 - Approximately 24% are unfavorable

Contact Information

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‘Blue Lantern’ End-use Monitoring

**Department of Commerce
Update Conference**

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Office of Defense Trade Controls Compliance
Bureau of Political-Military Affairs
U.S. Department of State**



Three Types of Defense Exports And End-Use Monitoring Programs

- Direct Commercial Sales (DCS) of United States Munitions List (USML) items
Blue Lantern: State Department
- Foreign Military Sales (FMS) (Gov’t-to-Gov’t)
Golden Sentry: Defense Department
- Dual-Use Items: Extrancheck
Commerce Department



Mission

To help ensure the security & integrity of
U.S. defense trade

- Prevent adversaries from acquiring U.S. military articles and technology
- Combat gray arms trade
- Impede proliferation
- Foster regional security & stability
- Regulate technology transfer



Arms Export Control Act: Blue Lantern

- End-use monitoring program required by the AECA, formalized 1996
 - Sec. 40A “End-use Monitoring of Defense Articles & Services”
 - Sec 40A(2)(A) “shall provide for the end-use monitoring of defense articles and defense services in accordance with the standards that apply for **identifying high-risk exports for regular end-use verification**”
 - ...40A(2)(B) “shall be designed to provide reasonable assurance that the **recipient is complying** with the requirements imposed by the USG with respect to **use, transfers, and security of defense articles and defense services**; and such articles and services are being used for the purposes for which they are provided.”



Blue Lantern Basics

- Verifies end-use, end-users, consignees/intermediaries, for U.S. exports of defense articles and services
- Performed worldwide by U.S. Embassy personnel in cooperation with host government
 - ✓ 111 countries in FY 2010
- High interest by Congress, media, and non-governmental organizations (NGOs), foreign governments
- U.S. industry awareness of program
- Participation is voluntary (but won't receive items otherwise)



Blue Lantern Basics Cont.

- Verify order/receipt of defense articles, technology, and services
- Assess *bona fides* & reliability of foreign parties
- Verify facts of transaction, foreign import/export documentation
- Physically view/inspect defense articles
- Confirm authorized end-use/end-user



Objective 1: Build Confidence in Defense Trade Relationship

- Assure security & integrity of defense trade
- Foster cooperation/confidence among U.S. government, foreign government, and industry
- Improve understanding of U.S. export controls (e.g., authorization required to re-export)
- **NOT a law enforcement action or 'investigation'**



Objective 2: Regulate Technology Transfer

- Favorable Blue Lantern checks may facilitate the transfer of more advanced technology overseas
- Unfavorable Blue Lantern checks may result in fewer exports of sensitive items
- Post-shipment Blue Lantern checks occur after license approval, but still provide end-use verification



Objective 3: Impede Gray Arms Trade

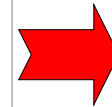
Gray Arms = Use of legitimate means for
illicit ends

- Looking out for these tools and techniques
 - ✓ False end-use documentation
 - ✓ Front companies
 - ✓ Brokers
 - ✓ Covert payments
 - ✓ Hidden intermediaries/end-users



Blue Lantern Overview

- Monitor Defense Exports
- Build Confidence Between
USG and Defense Trade
Partners
- Educate Foreign
Governments and
Companies on U.S. Export
Controls
- Impede Gray Arms Trade



Improved
International
Security
Environment



Types of Blue Lanterns

Pre-License Checks

- Confirms order by end-user
- Verifies *bona fides* of end-user and/or consignee
- Determine legality of end-user's import of the commodity
- Verifies proposed end-use is consistent with normal business practices
- Ensures foreign party understands its responsibilities under U.S. law

Post-Shipment Checks

- Confirms receipt of goods by end-user named on license
- Confirms goods have been and are being used in accordance with license provisos

Post-License/Pre-Shipment Checks

- Relatively rare, not as urgent or time-sensitive as pre-license check, but entails similar procedure



How Blue Lanterns Begin: Targeting, Referrals, and the Watchlist

• Origin

- DDTC Licensing and Compliance Officers
 - **DSP-5s, Agreements and other cases**
- State Department Bureaus
- Other USG Agencies
- GAO/OIG studies

• Watchlist

- 98,000+ entities
- Range from suspect to sanctioned
- Compiled from many sources (classified and open source)
- All license requests are run against the Watch List
- Hit against the Watch List may result in Blue Lantern, RWA or Denial



Life-Cycle of a Blue Lantern

Step 1: Washington

- Generate case
- Research on companies and technologies
- Draft, clear, and transmit diplomatic cable

Step 2: Embassy or Consulate

- Conduct check
- Draft, clear, and transmit diplomatic cable

Step 3: Washington

- If favorable, recommend approval of license
- If unfavorable, recommend license request be rejected or denied
 - May put U.S. and foreign parties on Watch List, refer to Enforcement for further action



Basic Warning Flags

• **End-User / End-Use Indicators**

- Unfamiliar end-user
- Reluctance or evasiveness by U.S. applicant or purchasing agent to provide information
- Payment in cash or at above-market rates
- Scanty, unavailable, or derogatory background information on end-user's business
- Incomplete/suspect supporting documentation
- Unfamiliarity of end-users with the product or its use
- End-user declines usual follow-on service, installation, warranty, spares, repair, or overhaul contracts

• **Commodity Indicators**

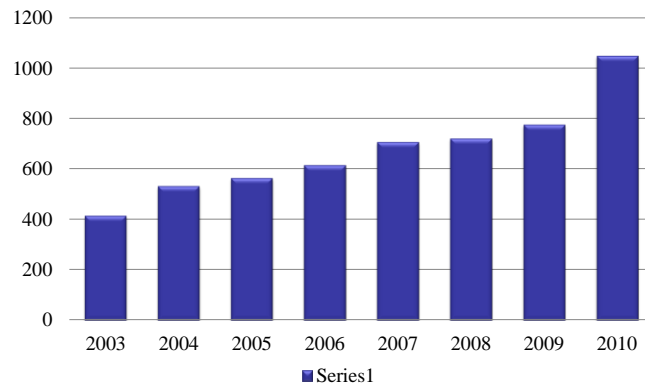
- Commodities/services appear excessive or inconsistent with end-user's or consignee's inventory or needs
- Commodities in demand by embargoed countries
- Especially sensitive commodities (e.g., night vision equipment, unmanned aerial vehicles, or cruise missile technologies)

• **Country / Shipment Indicators**

- Unusual routing, trans-shipment through multiple countries or companies
- Location of end-user or consignee in a Free Trade Zone (FTZ)
- New/unfamiliar intermediary
- Vague or suspicious delivery dates, locations (such as P.O. boxes), shipping instructions, packaging requirements, etc.
- Designation of freight forwarders as foreign consignees or foreign end-users
- Foreign intermediate consignees (trading companies, freight forwarders, export companies) with no apparent connection to the end-user



**Total Checks Initiated
FY 2003 to 2010**

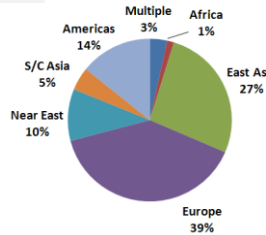


“Unfavorable” Checks

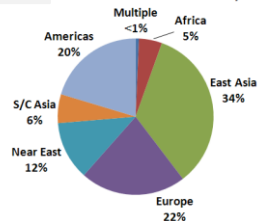
- “Unfavorable” = Derogatory indicators about transaction and/or findings inconsistent with information provided on export authorization request
 - ✓ Range from relatively benign to strong indications of diversion or misuse
- 150 of 723 (21%) Blue Lantern cases closed in FY 2010 were “unfavorable”
 - ✓ 54 of 552 (10%) FY 2009
 - ✓ 82 of 543 (15%) FY 2008
 - ✓ Average 14 – 20%



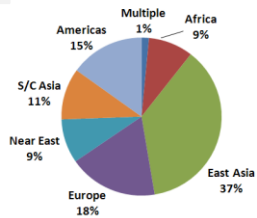
Total License Applications By Region FY 10



Total Blue Lanterns Initiated By Region FY 10



Total Unfavorable Blue Lanterns By Region FY 10



Primary Reasons for “Unfavorable” Checks in FY 2010

- Derogatory information / foreign party deemed unreliable recipient of USML: 29%
- Unable to confirm order or receipt of goods by end-user: 18%
- Foreign party (end-user and/or consignee) involved in transaction but not listed on license/application: 11%
- Indications of diversion or unauthorized retransfer or re-export: 9%
- Unauthorized brokering: 9%
- Lack of adequate facilities to securely store USML: 5%
- Refusal to cooperate: 5%



Case Studies

End-User Did Not Order Parts

Export License Application

Item: Puma AS-332M helicopter parts
 End-user: South American army
 Foreign Consignee: West European company #1
 Foreign Intermediate Consignee: West European company #2

Reason for Check

- Foreign intermediate consignee on Watchlist, history of diversion
- No documentation from end-user

Findings

- End-user did not operate PUMA AS-332M helicopters, never ordered the parts



Case Studies

Falsified End-Use Documentation

Export License Application

Item: Microwave filters
 End-user: R&D entity in East Asia
 Foreign Consignee: East Asian company
 U.S. Applicant: Has done business with R&D entity in past

Reason for Check

- Suspicious-looking end-user statement that did not match previous documents submitted by end-user
 - Misspelling in letterhead, no date, white-outs, no company seal or signature)

Findings

- Sole procurement officer for end-user did not place order
- Foreign consignee received order from a former employee of end-user who had been accused of corruption and suspended



Case Studies

Undeclared Consignee

License for Permanent Export (post-shipment check)

Item/End-Use: C-130 aircraft parts
 End-user: Middle Eastern military
 Foreign consignee: Asian-Pacific company

Reason for Check

- Unusual routing of items sought by embargoed countries

Findings

- Asian-Pacific company had transferred items to Southeast Asian consignee not listed on license without receiving authorization from either U.S. government or its own country's authorities
- Middle Eastern military was expecting parts from Asian-Pacific company, but unauthorized retransfer to Southeast Asian company creates opportunity for diversion

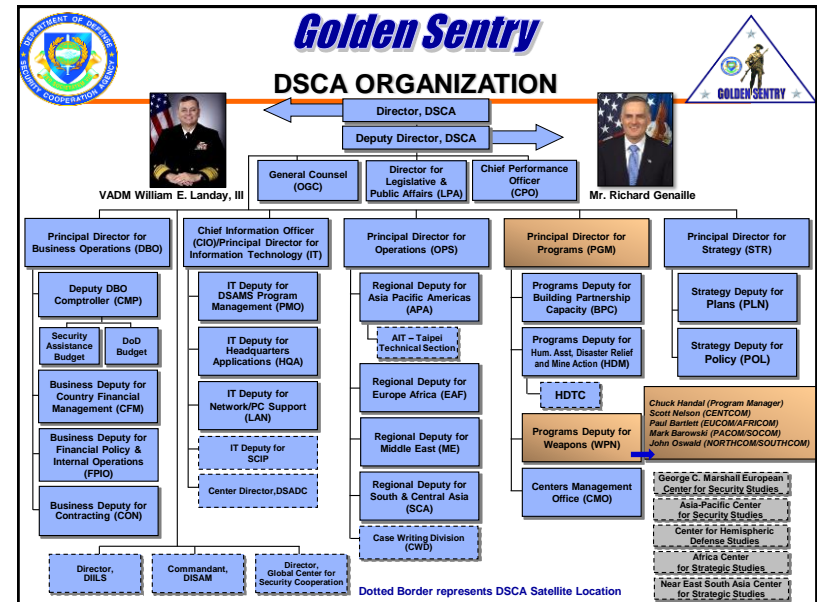
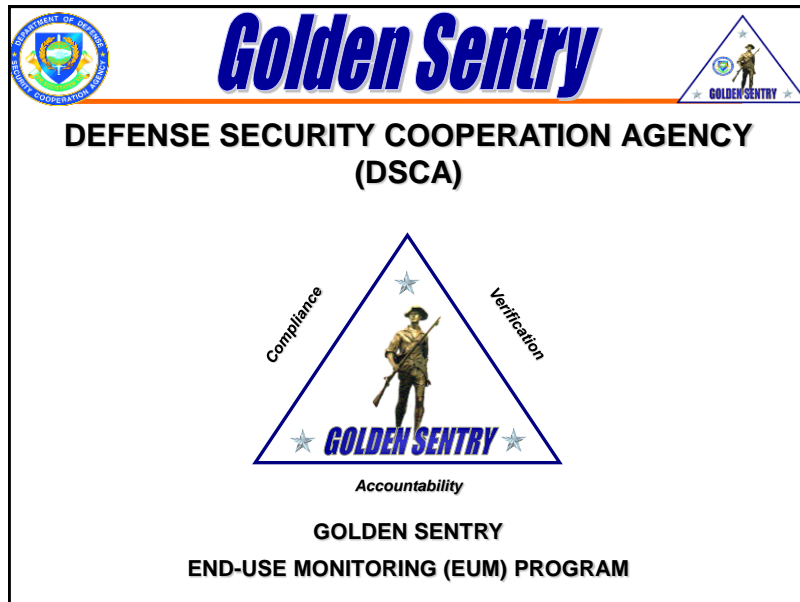




Additional Information & Reference Material

DDTC Website: www.pmddtc.state.gov
 (See "Reports and Official Statements" – "End-use Reports")


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 **Golden Sentry** 



EUM IS MANDATED BY U.S. LAW




ARMS EXPORT CONTROL ACT (AECA)

Section 40A of the AECA enacted in 1996 (Public Law 104-164) requires the President to establish an End-Use Monitoring program

- Sec 40A: In order to improve accountability with respect to defense articles sold, leased, or exported under the AECA or FAA, the President shall establish a program which provides for end-use monitoring of such articles and services
- Also requires a report to Congress annually as part of the Congressional Budget Justification:
 - Describing actions taken to implement Sec 40A, including a detail accounting of the costs and number of personnel associated with the monitoring program

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ARMS EXPORT CONTROL ACT (AECA)

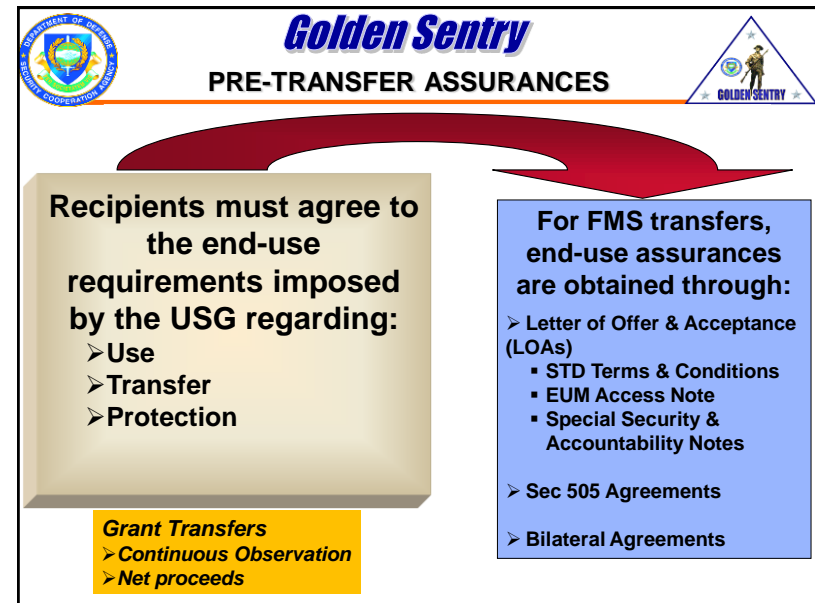
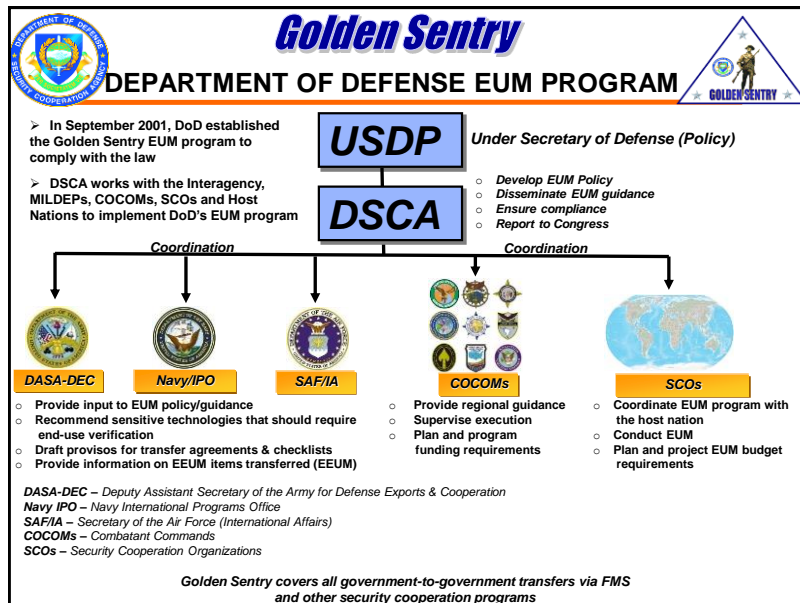
Section 40A EUM Program Requirements


To the extent practicable such program:

- Shall be designed to provide reasonable assurance that the recipient is complying with the requirements imposed by the United States Government with respect to use, transfers, and security of defense articles and defense services; and;

The President shall ensure that the program:


- provides for the end-use verification of defense articles and defense services:
 - that incorporate sensitive technology,
 - that are particularly vulnerable to diversion or other misuse, or;
 - whose diversion or other misuse could have significant consequences; and
- prevents the diversion of technology incorporated in defense articles (through reverse engineering or other means)





Golden Sentry

POST-DELIVERY MONITORING



➤ The Golden Sentry Program requires SCOs to perform two levels of EUM:

- Routine EUM (“Watch List” of defense articles & services)
- Enhanced EUM (Specifically designated defense articles & services)



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ROUTINE EUM



“Watch List” of Defense Articles
 Section 40A (AECA) - *Reasonable assurance of Use, Transfer & Security*

➤ USG personnel assigned to SCOs are required to conduct Routine EUM in conjunction with other security assistance functions:


- During visits to the host nations' installations
- Through interaction with other USG personnel supporting SCO activities
- Through open source and classified Embassy / Interagency reports

➤ SCOs observe and report potential violations, misuse, or illegal transfer of U.S.-origin defense articles to State PM/RSAT and DSCA

➤ Emphasis is on a “Watch List” of specific categories of defense items:


- Battle Tanks
- Armored Combat Vehicles
- Artillery Systems
- Fixed Wing Aircraft & Helicopters
- Unmanned Aerial Systems
- Warships & Military Vessels
- Missiles & Missile Systems
- Military Vehicles
- Bombs
- Crew Served and Individual Weapons
- Platform-mounted NVDs





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ENHANCED EUM (EEUM)




Specifically Designated Defense Articles

Section 40A (AECA) – provides for End-use verification of defense articles and defense services that incorporate sensitive technology, are vulnerable to diversion or other misuse, whose diversion or other misuse could have significant consequences, and prevents reverse engineering.


➤ EEUM requires SCO personnel to travel to the host nation's military installations throughout the country to:

- Conduct physical security checks of storage sites or other areas where EEUM items are kept
- Conduct inventories by serial number of defense articles designated for EEUM & annotate all inventories in a DSCA-maintained database (Security Cooperation Information Portal (SCIP))
- Verify destruction/disposal of EEUM-designated items and record their final disposition (e.g., fired, lost, destroyed) in SCIP



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SECURITY COOPERATION INFORMATION PORTAL (SCIP-EUM)

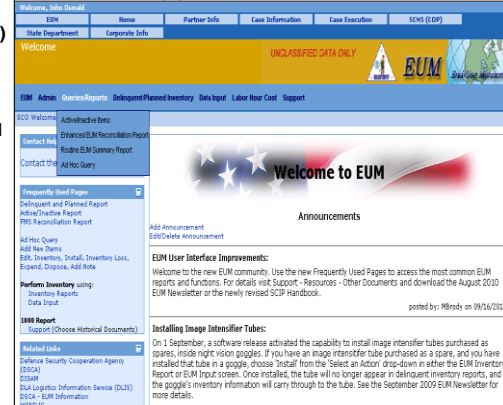


➤ To assist SCOs to conduct post-delivery monitoring, DSCA developed an EUM application in SCIP (SCIP-EUM)

➤ SCIP-EUM contains transfer information for:

- Routine EUM - Routine EUM Summary Report
- Enhanced EUM - EEUM - designated defense articles from delivery to the final disposition (Enhanced EUM Reconciliation Report)

➤ SCIP-EUM serves as a repository of data to establish a baseline of all EEUM-designated items transferred (by serial numbers), perform inventories, track each EEUM item's final disposition, and maintain EUM-related historical information



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CURRENT LIST of EEUM-DESIGNATED TECHNOLOGIES

- 1) Communication Security (COMSEC) Equipment
- 2) STINGER Missiles and Gripstocks
- 3) Night Vision Devices
- 4) JAVELIN Missiles and Command Launch Units
- 5) TOW-2B Missiles
- 6) Advanced Medium Range Air-to-Air Missiles AMRAAM (AIM-120)
- 7) AIM-9X Advanced Sidewinder Air-to-Air Missiles
- 8) Standoff Land Attack Missile Expanded Response Missiles (SLAM-ER)
- 9) Harpoon Block II Missiles
- 10) Joint Air-to-Surface Standoff Missiles (JASSM)
- 11) Joint Standoff Weapon (JSOW)
- 12) Standard Missile-3 (SM-3)
- 13) Tomahawk Missile
- 14) Large Aircraft Infrared Countermeasures (LAIRCM)
- 15) Unmanned Aircraft System (UAS)
- 16) Terminal High Altitude Area Defense (THAAD)

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EEUM DETERMINATION POLICY

- Does the MILDEP export policy for the defense article require USG post delivery security and accountability verification as part of the transfer?
- Does the Inter-agency release process for the transfer of classified information and sensitive technologies require USG post transfer control as part of the transfer approval?
- Does DoD, as a result of consultations with Congress require USG post-transfer security and accountability checks as part of the transfer approval?

DSCA staffing to add article to EEUM list

- Item is designated for EEUM
- MILDEP develops EEUM Note for LOAs
- DSCA publishes policy change / update in the SAMM
- MILDEP / DSCA update MASL
- EEUM Note is included on LOAs
- MILDEP develops inspection checklist
- DSCA validates inspection checklist during CAVs




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EUM POLICY DISSEMINATION / TRAINING




- **SAMM Chap 8:** Provide EUM policy guidance
- **Monthly EUM Newsletter:** Disseminate EUM information & best practices
- **Familiarization and Assistance Visit (FAV):** Assist SCOs and host nations to develop EUM programs
- **Regional EUM Forum:** Provide COCOM & SCO personnel updated EUM policy guidance and hands-on training on the SCIP-EUM application

SAMM – Security Assistance Management Manual



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EUM COMPLIANCE



Compliance Assessment Visits (CAV)

- **Assess compliance with DoD's EUM Program and provide recommendations for improvement**
 - Assess SCO's compliance with Golden Sentry policy
 - Assess the country's compliance with the transfer agreements
 - Inspect physical security of storage facilities
 - Review accountability procedures and security measures
 - Conduct inventories (50%-100%) of EEUM-designated items
 - Verify baseline of EEUM-designated equipment delivered
 - Review NVD Compliance Plan(s)
- **Long lead planning with SCO**
 - Annual cable notifying planned CAVs for the next two years
 - 60-day CAV verification cable
- **Each visit is unique to the Host Nation and equipment being assessed**

CAV teams participants may include State/DTC, DTRA, DTSA & COCOM personnel



Golden Sentry
QUESTIONS?

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